

Message Text

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S E C R E T STATE 188204 TOSEC 080243

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FOR THE SECRETARY FROM CHRISTOPHER

E.O. 11652: GDS

TAGS: OVIP (VANCE, CYRUS), PFOR

SUBJECT: EVENING READING

FOLLOWING IS TEXT OF TUESDAY'S EVENING READING:

1. INTERNATIONAL ECONOMIC PROSPECTS. THE LATEST FORECASTS FOR 1977 BY THE OECD AND THE EUROPEAN COMMUNITY COMMISSION PROJECT LOWER OVERALL NATIONAL ECONOMIC GROWTH THAN FORESEEN AT THE TIME OF THE MAY SUMMIT MEETING. FOR THE 24-NATION OECD AREA (WESTERN EUROPE, NORTH AMERICA, JAPAN, AUSTRALIA AND NEW ZEALAND), REAL GROWTH THIS YEAR IS PROJECTED AT FOUR PERCENT. WITHIN THE COMMUNITY, THE COMMISSION PREDICTS GROWTH OF ONLY THREE PERCENT, SUBSTANTIALLY BELOW THEIR FOUR PERCENT TARGET. THESE DISAPPOINTING NUMBERS LARGELY REFLECT CONTINUED EUROPEAN EFFORTS TO COMBAT HIGH INFLATION AND IMPROVE BALANCE-OF-PAYMENTS

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PERFORMANCE. DESPITE THESE EFFORTS, THE OECD ESTIMATES THAT INFLATION WILL AVERAGE 8.75 PERCENT THIS YEAR, OECD-WIDE, AND EXCEED 10 PERCENT IN WESTERN EUROPE. UNEMPLOYMENT IN EUROPE IS SEEN AS INCREASING TO 4.8 PERCENT IN 1977 AND TO 5.3 PERCENT BY MID-1978.

A TOTAL OECD AREA PAYMENTS DEFICIT (TRADE AND SERVICES)

OF \$30 BILLION THIS YEAR IS PROJECTED BY THE OECD, WITH THE U.S. EXPECTED TO ACCOUNT FOR \$14 BILLION. THE OECD SEES OUR DEFICIT AS HELPING TO STABILIZE THE WORLD PAYMENTS SITUATION, BUT THE OECD AGREES WITH US THAT THERE SHOULD BE A MORE EQUITABLE DIVISION OF THE DEFICIT AMONG THE STRONGER ECONOMIES. WE SHOULD NOT ENGAGE IN A PUBLIC DISPUTE WITH THE EUROPEANS AND JAPANESE ON THE NEED FOR THEM TO CARRY THEIR SHARE OF THE BURDEN, BUT WE MUST CONTINUE TO PRESS QUIETLY. WE INTEND TO DO SO IN TALKS WITH THE JAPANESE IN EARLY SEPTEMBER AND IN OUR CONTINUING PRIVATE BILATERAL CONTACTS WITH THE GERMANS.

THE OECD IS ALSO DISTURBED BY THE PAYMENTS POSITION OF THE SMALLER OECD COUNTRIES, SOME OF WHICH WILL REQUIRE MORE OFFICIAL FINANCING TO HELP THEM ADJUST. THE "WITTEVEEN FACILITY" AT THE IMF, WHICH IS STILL BELOW \$10 BILLION, WILL HELP BUT MAY BE INSUFFICIENT.

2. CHINA. SENATOR KENNEDY HAS SHOWN US AN ADVANCE COPY OF A SPEECH THAT HE WILL DELIVER IN BOSTON AUGUST 15 CALLING FOR FULL NORMALIZATION OF RELATIONS WITH CHINA BY EARLY 1978. THE SPEECH STRESSES KENNEDY'S BELIEF THAT NORMALIZATION WOULD NOT BE HARMFUL TO TAIWAN, AND PLEDGES THAT HE WILL WORK FOR CONGRESSIONAL ACTION TO PERMIT CONTINUED "UNOFFICIAL TIES" WITH TAIWAN AFTER NORMALIZATION.

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3. SOMALIA. THE SOMALI MILITARY TEAM MET WITH DEPARTMENT OFFICIALS YESTERDAY AND MADE THEIR CASE THAT U.S. ARMS ARE NEEDED TO DEFEND AGAINST AN EXPECTED ETHIOPIAN ATTACK ON SOMALI TERRITORY AND NOT FOR USE IN THE OGADEN. THE SOMALIS INSISTED THAT THE SOVIETS, HAVING CAST THEIR LOT WITH ETHIOPIA, WERE PROVIDING ADDIS WITH AN "UNRESTRICTED" SUPPLY OF ARMS. THE SOMALIS ASKED THAT WE AT LEAST PERMIT THE IRANIS AND SAUDIS TO TRANSFER U.S. ARMS.

WE REPLIED THAT, ASIDE FROM DELAYS FLOWING FROM LEGAL AND BUREAUCRATIC REQUIREMENTS, THE ESCALATED FIGHTING IN THE OGADEN HAD CHANGED THE CONTEXT IN WHICH OUR ORIGINAL DECISION HAD BEEN MADE. UNTIL STABILITY HAD RETURNED TO THE OGADEN, WE WOULD BE FORCED TO DELAY. MEANWHILE, WE SUPPORTED A PEACEFUL SETTLEMENT OF THE DISPUTE AND THE OAU MEDIATION EFFORT. IN RESPONSE TO THE SOMALI REQUEST THAT WE EXPEDITE THIRD COUNTRY TRANSFERS, WE NOTED THAT SUCH TRANSFERS ALSO INVOLVED PROCEDURAL PROBLEMS WHICH WOULD PREVENT IMMEDIATE ACTION. CHRISTOPHER

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